(1) For the purpose of developing this transitional estimate, the loop and port costs estimated by the FCC cost model, or other substitute method if no model is available, shall be used.

(2) For the purpose of developing this transitional estimate, the administrator shall construct three zones. Wire centers within the study area will be grouped into these zones in such a way that each zone is assigned approximately one third of the lines in the study area, with the lowest cost wire centers assigned to Zone 1, the highest cost wire centers assigned to Zone 3, and the remainder to Zone 2.

§54.810 Portable Access USF Support

(a) Each Eligible Telecommunication Carrier (ETC) that provides local exchange service, except through the resale of ILEC retail services pursuant to 47 U.S.C. §254(c)(4), to an end user within the study area of a participating price cap incumbent LEC shall receive Portable Access USF Per Line for each end user line.

(b) In any study area within which the incumbent LEC has not established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is Study Area Access USF Support divided by total lines (both ILEC and CLEC-provided) in that study area.

(c) *Alternative 1 (Proportionate Allocation)*[2]

In any study area within which the incumbent LEC has established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is calculated as follows:

(1) Within each study area, determine the percentage proportion of Study Area Universal Service Support to Study Area Above Cap Revenues.

(2) Within each zone and customer class (i.e. residential/single line business and multiline business for each zone), Portable Access USF Support Per Line for that zone and customer class is Zone Above EUCL Cap Revenues for that customer class times Study Area Access USF Support divided by Study Area Above Cap Revenues, divided by the number of lines of the customer class within that zone using base period demand.

[2] Parties do not agree in the methods in establishing the portable per line amount. Alternative 1 proposes that the Interstate Access-related USF should be distributed proportionately among all "above EUCL-Cap" lines.

Alternative 2 (Highest Cost Zone First)[3]

In any study area within which the incumbent LEC has established state approved geographically deaveraged rates for UNE loops, the Portable Access USF Support Per Line is calculated as follows. The support in each study area will be made portable for lines in the highest cost zone first, and will "cascade" to lines in lower cost zones to the extent that sufficient funding is available. Beginning with the zone with the highest Zone Average Revenue Per Line, funding will be applied in the following order of priority:

(1) To all lines in the highest zone, to eliminate the amount per line by which Zone Average Revenue Per Line exceeds the higher of $9.20 or the Average Revenue Per Line in the next highest zone;

(2) If the Zone Average Revenue Per Line in the next highest zone is greater than $9.20, then to all lines in both zones to eliminate the amount per line by which Zone Average Revenue per Line exceeds $9.20;

(3) To all residential and single line business lines in the highest zone, to eliminate the amount per line that Zone Average Revenue Per Line for these lines exceeds the higher of $7.00 or Average Revenue Per Line in the next highest zone;

(4) If the Zone Average Revenue per Line in the next highest zone is greater than $7.00, then to all residential and single line business lines in both zones to eliminate the amount per line by which Zone Average Revenue Per Line exceeds $7.00.

This "cascade" process will continue until all of the available funding has been assigned to lines by zone and by customer class; it may extend in similar fashion to additional zones, to the extent that their Zone Average Revenue per Line exceeds the $9.20 and $7.00 caps, and available funding permits. The per-line amount assigned to each multiline business line in a given zone would then be portable among eligible telecommunications carriers, as would the per-line amount assigned to each residence line and each single line business line in that zone.

§54.811 Preliminary Minimum Access $USF_{Study\ Area}$

(a) If Average Price Cap CMT Revenue Per $Line_{Study\ Area}$ is greater than $9.20 then:

Preliminary Minimum Access $USF_{study\ area}$ = Price Cap CMT $Revenue_{study\ area}$ - (($7.00 X Residential & Single Line Business $Lines_{study\ area}$ X 12) + $9.20 X Multiline Business $Lines_{study\ area}$ X 12))

[3] Parties do not agree in the methods in establishing the portable per line amount. Alternative 2 proposes the Interstate Access-related USF be distributed first to the highest cost lines.

(b) If Average Price Cap CMT Revenue Per Line$_{\text{Study Area}}$ is greater than \$7.00 but less than \$9.20 then:

Preliminary Minimum Access USF $_{\text{study area}}$ = (Average Price Cap CMT Revenue Per Line$_{\text{Study Area}}$ - \$7.00) X (Residential & Single Line Business Lines$_{\text{study area}}$ X 12)

(c) If Average Price Cap CMT Revenue Per Line$_{\text{Study Area}}$ is less than \$7.00 then the Preliminary Minimum Access USF $_{\text{study area}}$ is zero.

§54.812 Zone and Study Area Above EUCL Cap Revenues

(a) The following steps shall be performed by the Administrator to determine Zone Above EUCL Cap Revenues for each price cap incumbent LEC, whether or not participating.

(1) Calculate Average Price Cap CMT Revenue Per Line $_{\text{study area}}$.

(2) Calculate Zone Average Revenue Per Line.

(3) Calculate Zone Above EUCL Cap Revenues. Zone Above EUCL Cap Revenues is the sum of Zone Above EUCL Cap Revenues$_{\text{Residence\&SingleLineBusiness}}$ and Zone Above EUCL Cap Revenues $_{\text{MultilineBusiness}}$. Zone Above EUCL Cap Revenues $_{\text{Residence\&SingleLineBusiness}}$ is, within each zone, the product of Zone Average Revenue Per Line minus \$7.00 multiplied by line months. If negative, the Zone Above EUCL Cap Revenues $_{\text{Residence\&SingleLineBusiness}}$ for the zone is zero. Zone Above EUCL Cap Revenues $_{\text{MultilineBusiness}}$ is, within each zone, the product of Zone Average Revenue Per Line minus \$9.20 multiplied by line months; if negative the Zone Above EUCL Cap Revenues $_{\text{MultilineBusiness}}$ for the zone is zero. Or:

Zone Above EUCL Cap Revenues = ((Zone Average Revenue Per Line - \$7.00) X Residential & Single Line Business Lines $_{\text{study area}}$ X 12) + ((Zone Average Revenue Per Line - \$9.20) X
Multiline Business Lines $_{\text{study area}}$ X 12)

Where Zone Average Revenue Per Line - \$7.00 > \$0.00, and Zone Average Revenue Per Line - \$9.20 > \$0.00)

(b) Study Area Above Cap Revenues is the sum of Zone Above EUCL Cap Revenues for all zones in the study area.

§54.813 Calculation of Study Area Access USF Support for Areas Served by Participating Price Cap LECs

The Administrator, based on the data submitted pursuant to § 54.812, shall calculate the Study Area Access Universal Service Support for areas served by participating Price Cap Incumbent LECs according to the following methodology:

(1) Calculate Nationwide Total Above Cap Revenues. Nationwide Total Above Cap Revenues is the sum of all Study Area Above Cap Revenues for all price cap ILECs, whether or not participating.

(2) Calculate Preliminary Study Area Universal Service Support (PSUASS).

(i) If the Nationwide Total Above Cap Revenues is greater than \$650 million, then the Preliminary Study Area Universal Service Support (PSAUSS) equals the Study Area Above Cap Revenues multiplied by the ratio of \$650 million to Nationwide Total Above Cap Revenues (i.e. Preliminary Study Area Universal Service Support = Study Area Above Cap Revenues X (\$650 Million / Nationwide Total Above Cap Revenues).

If the Nationwide Total Above Cap Revenues is not greater than \$650 million, PSAUSS equals the Study Area Above Cap Revenues.

(3) Calculate the Minimum Delta (MD) by study area. Within each study area the Minimum Delta will be equal to the Minimum Access $USF_{Study\ Area}$ less the PSAUSS, if the difference is greater than zero. If the difference is less than or equal to zero, the MD is equal to zero.

(4) Calculate the Total National Minimum Delta (TNMD) by summing all study are Minimum Deltas nationwide.

(5) Calculate the Minimum Adjustment Amount.

(i) If the TNMD is greater than \$75 million, then the Minimum Adjustment Amount (MAA) equals the product of the current phased in percentage times the MD by study area times the ratio of \$75 million to TNMD Or:

Minimum Adjustment Amount = (MAA Phase In Percentage) X (Minimum Delta) X (\$75 million / Total National Minimum Delta).

(ii) If the TNMD is less than \$75 million, then the MAA equals the product of the MAA Phase In Percentage and the MD by study area.

(6) Calculate the Total National Minimum Support Requirement (TNMSR), which equals the sum of the MSR for all study areas. The Minimum Support Requirement for a study area is determined as follows:

(i) "Preliminary Study Area Universal Service Support × (\$650 million - TNMSR) ÷ Nationwide Sum of PSAUSS for all study areas in which MSR is \$0."

(ii) If the MAA is equal to zero, the MSR is the Preliminary Minimum Access $USF_{Study\ Area}$.

(7) Calculate Study Area Access USF Support (SAAUS).

(i) For study areas in which the MAA was zero, and within which the participating price cap incumbent LEC has established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is equal to:

Preliminary Study Area Universal Service Support x (\$650 million – TNMSR) ÷ \$650 million.

(ii) For study areas in which the MAA was zero, and within which the participating price cap incumbent LEC has not established geographically deaveraged state-approved rates for UNE loops, the SAAUS for that study area is the Preliminary Minimum Access $USF_{StudyArea}$ calculated pursuant to 54.811.

(iii) For study areas in which the MAA was greater than zero, the SAAUS for that study area is the Minimum Support Requirement (MSR).

§54.814 Support When Providing Service.

An eligible telecommunications carrier shall receive payment of support pursuant to § 54.810 only for such months the carrier is actually providing service to the end user. The Administrator shall ensure that there is periodic reconciliation of support payments.

§54.815 Transition Provisions.

Study Area Access USF Support amounts for the area served by each participating price cap incumbent LEC will be recalculated on July 1, 2000, January 1, 2001 and thereafter as determined by the Administrator.

§ 61.3 Definitions

(a) *Act*. The Communications Act of 1934 (48 Stat. 1004; 47 U.S.C. Chapter 5), as amended.

(b) ***Actual Price Index (API)***. An index of the level of aggregate rate element rates in a basket, which index is calculated pursuant to § 61.46.

(c) ***Association***. This term has the meaning given it in § 69.2(d)

(d) ***Average Price Cap CMT Revenue per Line Month.*** Price Cap CMT Revenue per Month as of December 31, 1999 (including the adjustments to be made pursuant to § 61.48(1)) using base period demand, divided by the base period demand number of lines as of December 31, 1999. In filing entities with multiple study areas, if it becomes necessary to calculate the Price Cap CMT Revenue Per Line for a specific study area, then the Price Cap CMT Revenue Per Line for that study area is determined as follows, using base period demand revenues (including the adjustments to be made pursuant to § 61.48(1)), Base Factor Portion (BFP) and lines as of December 31, 1999:

$$PriceCapCMTRevenuePerLine_{StudyArea} =$$

$$PriceCapCMTRevenue_{FilingEntity} \times (BFP_{StudyArea} \div BFP_{FilingEntity}) \div Lines_{StudyArea}$$

Nothing in this definition precludes a price cap local exchange carrier from continuing to average rates across filing entities containing multiple study areas, where permitted under existing rules.

Average Price Cap CMT Revenues Per Line may be adjusted after December 31, 1999 to reflect exogenous costs.

(e) ***Average Traffic Sensitive Charge.*** The Average Traffic Sensitive Charge will be calculated by taking the sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, switched Direct Trunked Transport, Signalling for switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, the residual and service-related Transport Interconnection Charges, Information Surcharge, and Signalling for Tandem Switching, and dividing that sum of revenues by total Local Switching minutes of use. If a new element is created from existing switched access rate elements (such as creating a call set-up charge out of the existing local switching rate element) the revenues anticipated from that element will be included in the calculation of the Average Traffic Sensitive Charge.

(f~~d~~) ***Band***. A zone of pricing flexibility for a service category, which zone is calculated pursuant to § 61.47.

(g~~e~~) ***Base period***. For carriers subject to §§ 61.41-49, the 12-month period ending six months prior to the effective date of annual price cap tariffs, or for carriers regulated under § 61.50, the 24-month period ending six months prior to the effective date of biennial optional incentive plan tariffs. Base year or base period earnings shall not include amounts associated with exogenous adjustments to the PCI for the sharing or lower formula adjustment mechanisms.

(h~~f~~) ***Basket***. Any class or category of tariffed service or charge:

(1) which is established by the Commission pursuant to price cap regulations;

(2) the rates of which are reflected in an Actual Price Index; and

(3) the related costs of which are reflected in a Price Cap Index.

(i~~g~~) ***Change in rate structure***. A restructuring or other alteration of the rate components for an existing service.

(j~~h~~) ***Charges***. The price for service based on tariffed rates.

(k~~i~~) ***Commercial contractor***. The commercial firm to whom the Commission annually awards a contract to make copies of Commission records for sale to the public.

(l~~j~~) ***Commission***. The Federal Communications Commission.

(m~~k~~) ***Concurring carrier***. A carrier (other than a connecting carrier) subject to the Act which concurs in and assents to schedules of rates and regulations filed on its behalf by an issuing carrier or carriers

(n~~l~~) ***Connecting carrier***. A carrier engaged in interstate or foreign communication solely through physical connection with the facilities of another carrier not directly or indirectly controlling by, or under direct or indirect common control with, such carrier.

(o~~m~~) ***Contract-based tariff***. A tariff based on a service contract entered into between an interexchange carrier subject to § 61.42 (a) through (c) or a nondominant carrier and a customer.

(p~~n~~) ***Corrections***. The remedy of errors in typing, spelling or punctuation.

(q~~o~~) ***Dominant carrier***. A carrier found by the Commission to have market power (i.e., power to control prices.

(r~~p~~) ***GDP Price Index***. (GDP-PI). The estimate of the "Fixed Weight Price Index for Gross Domestic Product, 1987 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(s~~q~~) ***GNP Price Index***. (GNP-PI). The estimate of the "Fixed-Weighted Price Index for Gross National Product, 1982 Weights" published by the United States Department of Commerce, which the Commission designates by Order.

(t~~r~~) ***Issuing carrier***. A carrier subject to the Act that publishes and files a tariff or tariffs with the Commission.

(u) ***Line Month***. Line demand per month multiplied by twelve.

(v~~s~~) ***Local Exchange Carrier***. Any person that is engaged in the provision of telephone exchange service or exchange access as defined in section 3(26) of the Act.

(w~~t~~) ***New service offering***. A tariff filing that provides for a class or sub-class or service not previously offered by the carrier involved and that enlarges the range of service options available to ratepayers.

(x~~u~~) ***Non-dominant carrier***. A carrier not found to be dominant.

(y~~v~~) ***Other participating carrier***. A carrier subject to the Act that publishes a tariff containing rates and regulations applicable to the portion or through service it furnishes in conjunction with another subject carrier.

(z) ***Price Cap CMT Revenue.*** The maximum total revenue a filing entity would be permitted to receive from End User Common Line charges, Presubscribed Interexchange Carrier charges (PICCs), Carrier Common Line charges, and the portion of local switching reallocated to the Common Line basket pursuant to § 61.48(l). Price Cap CMT Revenue includes marketing expenses presently collected pursuant to § 69.156(a), and residual interconnection charge revenues collected through PICC charges, but it does not recover the current local exchange carrier universal service contributions as of December 31, 1999.

(aa~~w~~) ***Price Cap Index*** (PCI). An index of costs applying to carriers subject to price cap regulation, which index is calculated for each basket pursuant to §§ 61.44 or 61.45

(bb~~x~~) ***Price cap regulation***. A method of regulation of dominant carriers provided in §§ 61.41 through 61.49.

(cc~~y~~) ***Price cap tariff***. Any tariff filing involving a service that is within a price cap basket, or that requires calculations pursuant to §§ 61.44, 61.45, 61.46, or 61.47.

(dd~~z~~) ***Productivity factor***. An adjustment factor used to make annual adjustments to the Price Cap Index to reflect the margin by which a carrier subject to price cap regulation is expected to improve its productivity to the economy as a whole.

(ee~~aa~~) ***Rate***. The tariffed price per unit of service.

(ff~~bb~~) ***Rate increase***. Any change in a tariff which results in an increased rate or charge to any of the filing carrier's customers.

(gg~~cc~~) ***Rate level change***. A tariff change that only affects the actual rate associated with a rate elements, and does not affect any tariff regulations or any other wording of tariff language.

(hh~~dd~~) ***Regulations***. The body of carrier prescribed rules in a tariff governing the offering of service in that tariff, including rules, practices, classifications, and definitions.

(ii~~ee~~) ***Restructured service***. An offering which represents the modification of a method of charging or provisioning a service; or the introduction of a new method of charging or provisioning that does not result in a net increase in options available to customers.

(jj~~ff~~) ***Service Band Index*** (SBI). An index of the level of aggregate rate element rates in a service category, which index is calculated pursuant to § 61.47.

(kk~~gg~~) ***Service category***. Any group of rate elements subject to price cap regulation, which group is subject to a band.

(ll~~hh~~) ***Supplement***. A publication filed as part of a tariff for the purpose of suspending or canceling that tariff, or tariff publication and numbered independently from the tariff page series.

(mm) ***Target Rate***. $0.0055 for former Bell Operating Companies and GTE. $0.0065 for other price cap local exchange carriers.

(nn~~ii~~) ***Tariff***. Schedule of rates and regulations filed by common carriers.

(oo~~jj~~) ***Tariff publication, or publication***. A tariff, supplement, revised page, additional page, concurrence, notice of revocation, adoption notice, or any other schedule of rates or regulations filed by common carriers.

(pp~~kk~~) ***Tariff year***. The period from the day in a calendar year on which a carrier's annual access tariff filing is scheduled to become effective through the preceding day of the subsequent calendar year.

(qq~~ll~~) ***Text change***. A change in the text of a tariff which does not result in a change in any rate or regulation.

(rr~~mm~~) ***United States***. The several States and Territories, the District of Columbia, and the possessions of the United States.

(ss) ***Zone Average Revenue per Line.*** The Price Cap CMT Revenue per Line allocated to a particular state-defined zone used for deaveraging of UNE loop prices. The Zone Average Revenue per Line is computed according to the following formula:

$$\text{Zone Average Revenue per Line} = (25\% * (\text{Loop}_{\text{Zone Price}} + \text{Port}_{\text{Price}}) + U$$

Where:

U (Uniform Revenue per Line Adjustment) =
$(\text{Price Cap CMT Revenue per line}_{\text{Study Area}} * \text{Base Period Lines}_{\text{study area}}) - (25\% * (\Sigma(\text{Lines}_{\text{UNE Zone}} \times (\text{Loop}_{\text{zone price}} + \text{Port}_{\text{Price}})_{\text{UNE Zone}} \times 12) \text{ for each zone}))) \div \text{Base Period Lines}_{\text{Study Area(s)}} \div 12$ where:

$(\text{Loop}_{\text{zone price}})_{\text{UNE Zone}}$ = the UNE rates for unbundled loop

$(\text{Port}_{\text{Price}})_{\text{UNE Zone}}$ = price for switch ports in that UNE zone.

§ 61.41 Price cap requirements generally.

(a) Sections 61.42 through 61.49 shall apply as follows:

(1) To dominant interexchange carriers, as specified by Commission order;

(2) To such local exchange carriers, as specified by Commission order, and to all local exchange carriers, other than average schedule companies, that are affiliated with such carriers; and

(3) On an elective basis, to local exchange carriers, other than those specified in paragraph (a)(2), that are neither participants in any Association tariff, nor affiliated with any such participants, except that affiliation with average schedule companies shall not bar a carrier from electing price cap regulation provided the carrier is otherwise eligible.

(b) If a telephone company, or any one of a group of affiliated telephone companies, files a price cap tariff in one study area, that telephone company and its affiliates, except its average schedule affiliates, must file price cap tariffs in all their study areas.

(c) The following rules apply to telephone companies subject to price cap regulation, as that term is defined in § 61.3(bb)~~61.3(w)~~, which are involved in mergers, acquisitions, or similar transactions.

(1) Any telephone company subject to price cap regulation that is a party to a merger, acquisition, or similar transaction shall continue to be subject to price cap regulation notwithstanding such transaction.

(2) Where a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that is not subject to price cap regulation, the latter telephone company shall become subject to price cap regulation no later than one year following the effective date of such merger, acquisition, or similar transaction and shall accordingly file price cap tariffs to be effective no later than the date in accordance with the applicable provisions of this Part 61.

(3) Notwithstanding the provisions of § 61.41(c)(2) above, when a telephone company subject to price cap regulation acquires, is acquired by, merges with, or otherwise becomes affiliated with a telephone company that qualifies as an "average schedule" company, the latter company may retain its "average schedule" status or become subject to price cap regulation in accordance with § 69.3(i)(3) and the requirements referenced in that section.

(d) Local exchange carriers that become subject to price cap regulation as that term is defined in § 61.3(w) shall not be eligible to withdraw from such regulation.

§ 61.42 Price cap baskets and service categories.

(a) Each dominant interexchange carrier subject to price cap regulation shall establish three baskets as follows:

(1) A residential services basket

(2) An 800 service basket; and

(3) A business services basket.

(b) (1) The residential basket shall contain such services as the Commission shall permit or require, including the following service categories:

(i) Domestic day MTS;

(ii) Domestic evening MTS;

(iii) Domestic night/weekend MTS ;

(iv) International MTS;

(v) Operator and credit card services; and

(vi) Reach Out America.

(2) The 800 service basket shall contain 800 Directory Assistance:

(i) Readyline 800;

(ii) AT&T 800;

(iii) Megacom 800,

(iv) Other 800; and

(v) 800 Directory Assistance.

(3) The business services basket shall contain analog private lines, including analog voice grade private line, unless provided under contract to a government entity, and terrestrial television transmission service.

(c) Dominant interexchange carriers subject to price cap regulation shall exclude the following offerings from their price cap baskets:

(1) Special construction services relating to services in § 61.42 (b)(1), (b)(2), and (b)(3);

(2) All other special construction services;

(3) American Telephone and Telegraph Company Tariff F.C.C. No. 11 services;

(4) American Telephone and Telegraph Company Tariff F.C.C. No. 12 services;

(5) American Telephone and Telegraph Company Tariff F.C.C. No. 16 services;

(6) Services subject to below-the-line accounting;

(7) International private line and record carrier services;

(8) Contract-based tariffs;

(9) Services removed from price cap regulation pursuant to the Report and Order in Docket No. 90-132;

(10) **[Removed and Reserved]**

(11) All other promotional offerings;

(12) Custom tariff services;

(13) Readyline 800 service;

(14) AT&T 800 service;

(15) Megacom 800 service;

(16) Other 800 services;

(17) Commercial services; and

(18) Such other services as the Commission may specify.

(d) Each local exchange carrier subject to price cap regulation shall establish baskets of services as follows:

(1) A basket for the common line interstate access elements as described in §§ 69.115, 69.152, 69.154, and 69.157 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers common line interstate access revenues;

(2) A basket for traffic sensitive switched interstate access elements;

(3) A basket for trunking services as described in §§ 69.110, 69.111, 69.112, 69.114, 69.125(b), and 69.155 of this chapter, and that portion of the interstate access element described in § 69.153 of this chapter that recovers residual interconnection charge revenues;

(4) To the extent that a local exchange carrier specified in § 61.41(a)(2) or (3) offers interstate interexchange services that are not classified as access services for the purpose of part 69 of this chapter, such exchange carrier shall establish a fourth basket for such services.

(5) **[Removed and Reserved]**

(6) A basket for the marketing expenses described in § 69.156 of this chapter, including those recovered through End User Common Line charges and Presubscribed Interexchange Carrier charges.

(e) (1) The traffic sensitive switched interstate access basket shall contain such services as the Commission shall permit or require, including the following service categories:

(i) Local switching as described in § 69.106(f) of this chapter;

(ii) Information, as described in § 69.109 of this chapter;

(iii) Data base access services;

(iv) Billing name and address, as described in § 69.128 of this chapter;

(v) Local switching trunk ports, as described in § 69.106(f)(1) of this chapter; and

(vi) Signalling transfer point port termination, as described in § 69.125(c) of this chapter.

(2) The trunking basket shall contain such transport and special access services as the Commission shall permit or require, including the following service categories and subcategories:

(i) Voice grade entrance facilities, voice grade direct-trunked transport, voice grade dedicated signalling transport, voice grade special access, WATS special access, metallic special access, and telegraph special access services;

(ii) Audio and video services;

(iii) High capacity flat-rated transport, high capacity special access, and DDS services, including the following service subcategories:

(A) DS1 entrance facilities, DS1 direct-trunked transport, DS1 dedicated signalling transport, and DS1 special access services; and

(B) DS3 entrance facilities, DS3 direct-trunked transport, DS3 dedicated signalling transport, and DS3 special access services;

(iv) Wideband data and wideband analog services;

(v) Tandem-switched transport, as described in § 69.111 of this chapter;

(vi) Interconnection charge, as recovered in §§ 69.153 and 69.155 of this chapter; and

(vii) Signalling for tandem switching, as described in § 69.129 of this chapter.

(f) Each local exchange carrier subject to price cap regulation shall exclude from its price cap baskets such services or portions of such services as the Commission has designated or may hereafter designate by order.

(g) New services, other than those within the scope of paragraphs (c) and (f) of this section, must be included in the affected basket at the first annual price cap tariff filing following completion of the base period in which they are introduced. To the extent that such new services are permitted or required to be included in new or existing service categories within the assigned basket, they shall be so included at the first annual price cap tariff filing following completion of the base period in which they are introduced.

* * *

§ 61.45 Adjustments to the PCI for local exchange carriers.

(a) Local exchange carriers subject to price cap regulation shall file adjustments to the PCI for each basket as part of the annual price cap tariff filing, and shall maintain updated PCIs to reflect the effect of mid-year exogenous cost changes.

(b) Adjustments to local exchange carrier PCIs for the baskets designated in § 61.42(d) (2), (3), (4), and (6) shall be made pursuant to the formula set forth in § 61.44(b), and as further explained in § 61.44 (e), (f), (g), and (h).

(1) Notwithstanding the value of X defined in § 61.44(b), the X value applicable to the baskets specified in § 61.42(d) (2), (3), and (6) shall be 6.5%, to the extent necessary to reduce a tariff entity's Average Traffic Sensitive Charge to the Target Rate for the first time. Once an ILEC tariff entity's Average Traffic Sensitive Charge is equal to the Target Rate for the first time (the former NYNEX telephone companies may be treated as a separate tariff entity), then, except as provided in paragraph (2), X is equal to GDP-PI and no further reductions will be mandated.(i.e. if applying the full X-factor reduction for a given year would reduce the Average Traffic Sensitive Charge below the Target Rate, the amount of X-factor reduction applied that year will be the amount necessary to reach the Target Rate).

For companies with separate tariff entities under a single cap, the following rules shall apply:

(i) Targeting amounts as defined in 61.45 (i)(1) shall be identified separately, using the revenue for each of the tariff entities under the cap.

(ii) Each tariff entity shall only be required to use the amount of targeting necessary to get to the \$0.0055 or \$0.0065 Target Rate.

(2) Once an ILEC achieves the following: 1) the Tariff Entity's Average Traffic Sensitive Charge has at least once reached the Target Rate, even if is subsequently deviated from the Target Rate pursuant to § 61.45(i)(4); 2) the Carrier Common Line and PICC rates are eliminated; and 3) the primary residential and single line business End User Common Line charge reaches the Average Price Cap CMT Revenue Per Line, the X-factor for the Common Line and Marketing baskets will equal GDP-PI as long as GDP-PI is less than or equal to 6.5% and greater than 0%. If GDP-PI is greater than 6.5%, the X-factor for the Common Line and Marketing baskets will equal 6.5%, and all End User Common Line charges will be increased by the difference between GDP-PI and the 6.5% X-factor. If GDP-PI is less than 0, the X-factor for the Common line and Marketing baskets will be 0.

(3~~2)~~) For the basket specified in § 61.42(d)(4), the value of X for all local exchange carriers subject to price cap regulation, shall be 3.0%.

~~(3) **[Removed and Reserved]**~~

(c) Adjustments to local exchange carrier PCIs for the baskets designated in § 61.42(d)(1), (2), (3) and (4) shall be made pursuant to the following formulas:

(1) Common Line.

(i) Subject to paragraphs (c)(ii) ~~(c)(2)~~ and (e) of this section, adjustments to local exchange carrier PCIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1}[1+w[(GDP\text{-}PI - X - (g/2))/(1 + (g/2))] + \Delta Z/R]$$

Where the terms in the equation are described in (c)(6) below

~~where~~

~~GDP-PI = the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year.~~

~~X = productivity factor of 6.5%.~~

~~g = the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, minus 1.~~

~~ΔZ = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1}, measured at base period level of operations.~~

~~R = base period quantities for each rate element "i", multiplied by the price for each rate element "i" at the time the PCI was updated to PCI_{t-1};~~

~~w = R – ΔZ, all divided by R,~~

~~PCI_t = the new PCI value, and~~

~~PCI_{t-1} = the immediately preceding PCI value.~~

(ii~~2~~) The formula set forth in paragraph (c)(1)(i) of this section shall be used by a local exchange carrier subject to price cap regulation only if that carrier is imposing a carrier common line charge pursuant to § 69.154 of this chapter. Otherwise, adjustments to local exchange carrier PCIs for the basket designated in § 61.42(d)(1) shall be made pursuant to the formula set forth below: ~~§ 61.44(b), and paragraphs (i) and (j) of this section, and as further explained in § 61.44 (e), (f), (g), and (h). For the purposes of this paragraph, and notwithstanding the value of X defined in § 61.44(b), the X value applicable to the basket specified in § 61.42(d)(1) shall be 6.5%.~~

$$PCI_t = PCI_{t-1}[1+w[(GDP\text{-}PI - X) + \Delta Z/R]$$

where the terms in the equation are described in section (c)(6) below.

(2) Adjustments to local exchange carrier PCIs for the Traffic Sensitive basket designated in § 61.42(d)(2) shall be made as follows:

$$PCI_t = PCI_{t-1}[1+w[(GDP\text{-}PI - X) + \Delta Z/R]$$

where the terms in the equation are described in section (c)(6) below.

(3) Adjustments to local exchange carriers' PCIs for the Trunking basket designated in § 61.42(d)(3) shall be made as follows:

$$PCI_t = PCI_{t-1}[1+w[(GDP\text{-}PI - X) + \Delta Z/R]$$

where the terms in the equation are described in section (c)(6) below.

(4) Adjustments to local exchange carriers' PCIs for the Interexchange basket designated in § 61.42(d)(4) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1}[1 + w_{t}[(GDP\text{-}PI - X) + \Delta Y/R + \Delta Z/R]$$

where the terms in the equation are described in section (c)(6) below.

(5) Adjustments to local exchange carriers' PCIs for the Marketing basket designated in § 61.42(d)(6) shall be made pursuant to the following formula:

$$PCI_t = PCI_{t-1}[1 + w[(GDP\text{-}PI - X) + \Delta Z/R]$$

where the terms in the equation are described in section (c)(6) below.

(6) PCI term definitions. PCI formulas in sections (c)(1) through (c)(5), above, contain some or all of the following components, which are defined here:

GDP-PI = For annual filings only, the percentage change in the GDP-PI between the quarter ending six months prior to the effective date of the new annual tariff and the corresponding quarter of the previous year. For all other filings, the value is zero.

X = For the Common Line, Traffic Sensitive, Trunking, and Marketing baskets, for Annual Filings only, the factor set at the level prescribed in subsection (b)(1)-(2). For the Interexchange Basket, for annual filings only, the factor is set at the level prescribed in subsection (b)(3). For all other filings, the value is zero.

g = For annual filings only, the ratio of minutes of use per access line during the base period, to minutes of use per access line during the previous base period, all minus 1. For all other filings, the value is zero.

ΔZ = the dollar effect of current regulatory changes when compared to the regulations in effect at the time the PCI was updated to PCI_{t-1}, measured at base period level of operations.

ΔY = (new access rate - access rate at the time the PCI was updated to PCI_{t-1}) x (base period demand), summed for all access rate elements.

R = base period quantities for each rate element "I", multiplied by the price for each rate element "I" at the time the PCI was updated to PCI_{t-1}.

w = R + ΔZ, all divided by R (used for the common line, traffic sensitive, trunking, and marketing baskets).

w_{ix} = R - (access rate in effect at the time the PCI was updated to PCI_{t-1} x base period demand) + ΔZ, all divided by R_i;

PCI_t = the new PCI value.

PCI_{t-1} = the immediately preceding PCI value.

Targeted Reduction = the actual possible dollar value of the (GDP-PI - X) reductions that will be targeted to the Average Traffic Sensitive Charge (as defined in paragraph 61.45(i)(3) of this chapter).

(d) The exogenous cost changes represented by the term "ΔZ" in the formula detailed in paragraphs (b) and (c) of this section shall be limited to those cost changes that the Commission shall permit or require by rule, rule waiver, or declaratory ruling.

(1) Subject to further order of the Commission, those exogenous changes shall include cost changes caused by:

(i) the completion of the amortization of depreciation reserve deficiencies;

(ii) such changes in the Uniform System of Accounts, including changes in the Uniform System of Accounts requirements made pursuant to § 32.16 of this chapter, as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(iii) changes in the Separations Manual;

(iv) changes to the level of obligation associated with the Long Term Support Fund and the Transitional Support Fund described in § 69.612;

(v) the reallocation of investment from regulated to nonregulated activities pursuant to § 64.901;

(vi) such tax law changes and other extraordinary cost changes as the Commission shall permit or require be treated as exogenous by rule, rule waiver, or declaratory ruling.

(vii) as of January 1, 2000, the retargeting of the PCI to the level specified by the Commission for carriers whose base year earnings are below the level of the lower adjustment mark will be eliminated until January 1, 2005.

(viii) inside wire amortizations

(ix) the completion of amortization of equal access expenses.

(2) (i) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall also make such temporary exogenous cost changes as may be necessary to reduce PCIs to give full effect to any sharing of base period earnings required by the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990. Such exogenous cost changes shall include interest, computed at the prescribed rate of return, from the day after the end of the period giving rise to the adjustment, to the midpoint of the period when the adjustment is in effect.

(ii) local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall not be subject to the sharing mechanism set forth in the Commission's Second Report and Order in Common Carrier Docket No. 87-313, FCC 90-314, adopted September 19, 1990, with respect to earnings accruing on or after July 1, 1997. This paragraph has no effect on any sharing obligation of any local exchange carrier relating to earnings accrued before July 1, 1997.

(3) Local exchange carriers specified in § 61.41(a)(2) or (a)(3) shall, in their annual access tariff filing, recognize all exogenous cost changes attributable to modifications during the coming tariff year in the obligations specified in § 61.45(d)(1)(iv) as well as those changes attributable to alterations in their Subscriber Plant Factor and the Dial Equipment Minutes factor, and completions of inside wire amortizations and reserve deficiency amortizations.

(4) Exogenous cost changes shall be apportioned on a cost-causative basis between price cap services as a group, and excluded services as a group. Exogenous cost changes thus attributed to price cap services shall be further apportioned on a cost-causative basis among the price cap baskets.

(5) After January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(e) The "w[(GDP-PI - X - (g/2))/(1 + (g/2))]" component of the PCI formula contained in paragraph (c)(1)(i) of this section shall be employed only in the adjustment made in connection with the annual price cap filing.

(f) The exogenous costs caused by new services subject to price cap regulation must be included in the appropriate PCI calculations under paragraph (c) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced.

(g) In the event that a price cap tariff becomes effective, which tariff results in an API value (calculated pursuant to § 61.46) that exceeds the currently applicable PCI value, the PCI value shall be adjusted upward to equal the API value.

(h) **[Removed and reserved.]**

~~(i) (1) Notwithstanding the provisions of paragraphs (b) and (c) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.124 or § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the baskets designated in § 61.42(d)(1) and (2) that result from the application of the formula in § 61.45(c), and pursuant to § 61.45(b), application of the formula in § 61.44(b) as further explained in § 61.44(c), (f), (g), and (h), to the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the baskets designated in § 61.42(d)(1) and (2) as a result of the application of the formula in § 61.44(b) and § 61.45(c). These reductions are to be made after the adjustment is made to the PCI for the basket designated in § 61.42(d)(3) resulting from the application of the formula in § 61.44(b), as further explained in § 61.44(c), (f), (g) and (h).~~

~~(2) Notwithstanding the provisions of paragraph (b) of this section, and subject to the limitations of paragraph (j) of this section, price cap local exchange carriers that are recovering interconnection charge revenues through per-minute rates pursuant to § 69.155 of this chapter shall target, to the extent necessary to eliminate the recovery of any residual interconnection charge revenues through per-minute rates, any PCI reductions associated with the basket designated in § 61.42(d)(6) that result from the application of the formula in § 61.44(b), as further explained in § 61.44(c), (f), (g), and (h), to the PCI for the basket designated in § 61.42(d)(3), with no adjustment being made to the PCIs for the basket designated in § 61.42(d)(6) as a result of the application of the formula in § 61.44(b). This reduction is to be made after any adjustment made pursuant to paragraph (i)(1) of this section.~~

~~(3) Through December 31, 1997, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraph (i)(1) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1) and (d)(2) except for the provisions of paragraph (i)(1) of this section by the dollar amount associated with the PCI for the basketdesignated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.~~

~~(4) Effective January 1, 1998, the reduction in the PCI for the basket designated in § 61.42(d)(3) that results from paragraphs (i)(1) and (i)(2) of this section shall be determined by dividing the sum of the dollar effects of the PCI reductions that would have applied to the baskets designated in § 61.42(d)(1), (d)(2), and (d)(6), except for the provisions of paragraphs (i)(1) and (i)(2) of this section, by the dollar amount associated with the PCI for the basket designated in § 61.42(d)(3), and multiplying the PCI for the basket designated in § 61.42(d)(3) by one minus the resulting ratio.~~

(i) (1) Price cap local exchange carriers that are recovering revenues through rates pursuant to §§ 69.106, 69.108, 69.109, 69.110, 69.111, 69.112, 69.113, 69.118, 69.123, 69.124, 69.125, 69.129 or § 69.155 of this chapter shall target, to the extent necessary to reduce the Average Traffic Sensitive Charge to the Target Rate for the first time, any PCI reductions associated with the dollar impact of the Common Line, Traffic Sensitive, Trunking and Marketing baskets' GDP-PI and productivity factor, as those items are described in paragraph (c)(6) of this section. In order to calculate the actual dollars to transfer to the Trunking and Traffic Sensitive baskets, carriers will first determine a "Targeted Revenue Differential" by basket, and then determine the "Targeted Revenue Differential" that will be transferred to the Trunking and Traffic Sensitive baskets to reduce the Average Traffic Sensitive Charge to \$0.0055 or \$0.0065, whichever is applicable. Dollars that are transferred to the Trunking and Traffic Sensitive baskets from the Common Line, Traffic Sensitive, Trunking and Marketing baskets shall not be used to reduce the PCIs in those baskets. Before determining the portion of Targeted Revenue Differential that will be targeted to the reduction of the Average Traffic Sensitive Charge, from the Common Line, Traffic Sensitive, Trunking and Marketing baskets, price cap local exchange carriers shall first calculate the Targeted Revenue Differential associated with the Common Line, Traffic Sensitive, Trunking and Marketing baskets.

(i) the price cap local exchange carrier shall use the following formula:

Targeted Revenue Differential = R * (GDP-PI - X)

(2) Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting. However, after January 1, 2000, exogenous adjustments will be recovered from services other than those used to calculate the Average Traffic Sensitive Charge.

(3) Until a Tariff entity's Average Traffic Sensitive Charge equals the Target Rate for the first time, the aggregate reductions within a given tariff filing entity from application of the X-factor adjustment in the price cap formula across all of that entity's interstate price cap baskets (less access reductions, if any, the ILEC chooses to apply as of July 1, 2001 to reduce Special Access rates, up to the amount of reductions Special Access would get through an untargeted application

of the X-factor adjustment) will be targeted to reduce the following rates for that tariff filing entity, in order of priority:

(i) To the residual per minute Transport Interconnection Charge, until that rate is $0.00; then

(ii) To the Information Surcharge, until that rate is $0.00; then

(iii) To the Local Switching charge and Switched Transport charges until the tariff entity's Average Traffic Sensitive Rate equals the Target Rate for the first time. In making these reductions, the reductions to Local Switching rates as a percentage of total X-factor reductions must be greater than or equal to the percentage proportion of Local Switching revenues to the total sum of revenues for Local Switching, Local Switching Trunk Ports, Signalling Transfer Point Port Termination, Switched Direct Trunked Transport, Signalling for Switched Direct Trunked Transport, Entrance Facilities for switched access traffic, Tandem Switched Transport, and Signalling for Tandem Switching (i.e., Local Switching gets at least its proportionate share of reductions).

(4) After an ILEC reaches the Target Rate level, the Average Traffic Sensitive Rate will be recalculated each Annual Filing following. This process will identify the new Average Traffic Sensitive Charge for the new base period level. Due to change in base period demand and inclusion of new services for that Annual Tariff filing, the absolute level of a tariff entity's Average Traffic Sensitive Charge may change. The resulting new Average Traffic Sensitive Charge level will be what that tariff entity will be measured against during that base period. For example, if a company was at $0.0055 during the 2000 Annual Filing, that level may change to $0.0058 in the 2001 Annual filing due to demand and new services. Therefore, it will be the $0.0058 that the tariff entity will be measured against for all *non*-annual filings. Likewise, if a company was at $0.0055 during the 2000 filing, that level may change to $0.0053 in the 2001 Annual Filing due to demand and new services. In that case, it will be the $0.0053 level that the tariff entity will be measured.

~~(i) In determining the extent of the targeting that shall occur pursuant to paragraphs (i)(1) and (i)(1) of this section and §61.47(i)(1) and (i)(2), local exchange charriers shall:~~

~~(1) Compute their anticipated residual interconnection charge amount by excluding revenues that are expected to be reallocated to cost-causative facilities-based charges in the future. To determine interconnection charge amounts so excluded in connection with the July 1, 1997 tariff filings, the following local exchange carriers shall use as an estimate of the residual interconnection charge revenues the specified residual interconnection charge percentage: NYNEX, 77.63 percent; BellSouth, 56.93 percent; U S West, 59.14 percent; Bell Atlantic, 63.96 percent; Southwestern Bell Telephone, 69.11~~

~~percent; and Pacific Bell and Nevada Bell, 53.52 percent. Each remaining price cap local exchange carrier shall estimate a residual interconnection charge in an amount equal to 55 percent of its current interconnection charge revenues. For subsequent tariff filings in which the PCI reductions are to be targeted to the interconnection charge, these initial estimates shall be adjusted to reflect the actual amounts that have or will be reallocated. If the use of these estimates results in more PCI reductions being targeted to the interconnection charge than required to eliminate the per-minute interconnection charge, the local exchange carrier shall make the necessary exogenous adjustments to reverse the effects of the excess targeting.~~

~~(2) Not include the amount of any exogenous adjustments reflected in the z component of the formulas in §§ 61.44(b) and 61.45(c). Any such exogenous adjustments shall be reflected in the various PCIs and SBIs in the same manner as they would if there were no targeting.~~

(j) [Removed and Reserved.]

(k) The calculation of the PCI for the basket designated in § 61.42(d)(3) shall include any residual interconnection charge revenues recovered pursuant to §§ 69.153 and 69.155 of this chapter.

(l) The calculation of the PCI for the basket designated in § 61.42(d)(6) shall include any marketing expense revenues recovered pursuant to §§ 69.153 and 69.156 of this chapter.

§ 61.46 Adjustments to the API.

(a) Except as provided in paragraphs (d) and (e) of this section, in connection with any price cap tariff filing proposing rate changes, the carrier must calculate an API for each affected basket pursuant to the following methodology:

$$API_t = API_{t-1}[\Sigma_i \, v_i, (p_t/p_{t-1})i]$$

where

API_t = the proposed API value;

API_{t-1} = the existing API value.

p_t = the proposed price for rate element "i"

p_{t-1} = the existing price for rate element and "i"

v_i = the current estimated revenue weight for rate element "i," calculated as the ratio of the base period demand for the rate element "i" priced at the existing rate, to the base period demand for the entire basket of services priced at existing rates.

(b) New services subject to price cap regulation must be included in the appropriate API calculations under paragraph (a) of this section beginning at the first annual price cap tariff filing following completion of the base period in which they are introduced. This index adjustment requires that the demand for the new service during the base period must be included in determining the weights used in calculating the API.

(c) Any price cap tariff filing proposing rate restructuring shall require an adjustment to the API pursuant to the general methodology described in paragraph (a) of this section. This adjustment requires the conversion of existing rates into rates of equivalent value under the proposed structure, and then the comparison of the existing rates that have been converted to reflect restructuring to the proposed restructured rates. This calculation may require use of carrier data and estimation techniques to assign customers of the preexisting service to those services (including the new restructured service) that will remain or become available after restructuring.

(d) (1) Subject to paragraph (d)(2) of this section, and in connection with any price cap tariff proposing changes to rates for services in the basket designated in § 61.42(d)(1), the maximum allowable carrier common line (CCL) charges shall be computed pursuant to the following methodology:

$CCL_{MOU} = CL_{MOU} * (1 + \%\text{ change in CL PCI}) - (EUCL_{MOU} + PICC_{MOU}) * 1 / (1 + (g/2))$

where

CCL_{MOU} = the sum of each of the proposed Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, divided by the sum of all types of base period Carrier Common Line minutes of use,

CL_{MOU} = the sum of each of the existing maximum allowable Carrier Common Line rates multiplied by its corresponding base period Carrier Common Line minutes of use, plus each existing maximum allowable End User Common Line (EUCL) rate multiplied by its corresponding base period lines, plus the common line portion of each existing maximum allowable Presubscribed Interexchange Carrier Charge (PICC) multiplied by its corresponding base period lines, divided by the sum of all types of base period Carrier Common Line minutes of use,

$EUCL_{MOU}$ = maximum allowable End User Common Line rates multiplied by base period lines, and divided by the sum of all types of base period Carrier Common Line minutes of use,